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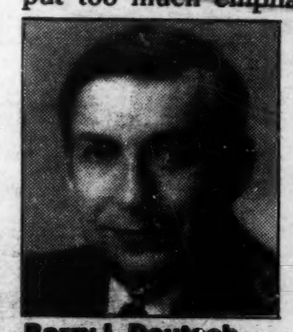
Today

CONSUMER FINANCIAL SERVICES

What went right in retail banking in 1987? What went wrong? And what's the outlook for 1988? Four industry experts give *American Banker* their evaluation. 7

CoreStates Bank of Delaware will begin marketing Visa cards on behalf of the United States Olympic Committee to some 11 million participants and supporters. 3

Marketing Management: Bankers put too much emphasis on product management and not enough on the only thing that really counts — the customer and his needs, writes Barry I. Deutsch. A bank is more like a store than a manufacturer, he contends, in its relationship to the consumer. 4



Barry I. Deutsch

Persons 50 years and older consider guaranteed safety, high rates of return, and a trouble-free checking account most important when selecting a financial institution, according to a Goldring & Co. study. 6

INSIDE

The *American Banker* today introduces a **Banking on the Arts** column. The monthly feature will look at the involvement of the financial services industry in the arts, including joint efforts. The first installment shows that the art world has survived the stock crash unscathed. 2

Valley Federal Savings and Loan, Van Nuys, Calif., said it is in "serious discussions" with a California thrift on a possible merger. 2

President Reagan signed legislation authorizing a secondary market in farm mortgages but criticized the bill, which also provides for a $4 billion bailout of the beleaguered Farm Credit System. Meanwhile, Rep. John D. Dingell said he had serious doubts about whether banks can underwrite the securities. 2

TEXT

The SEC issued an opinion encouraging bank holding companies to use generally accepted accounting principles in the new Mexican loan-for-bond debt swap. 10

KEEPING CURRENT

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Quote/Unquote

If you had picked a day for the Russians to attack, that would have been it.

John F. McAteer, Chase vice president, on an electrical fire that closed the bank's main operations and systems building on Monday. [Page 16]

Review/Preview

Banks and Consumers Reassess Their Strategies After the Crash

By JAY ROSENSTEIN

For many people, it takes something as shocking and sobering as a heart attack to force them to evaluate what really matters in their lives. The October stock market crash may have been enough of a shock to the American financial system to make consumers take stock — for the first time in years — of what really matters to their economic well-being.

How much risk are they prepared to take with their money? Which institutions and advisers do they trust? How much are they willing to spend and to borrow? And how important is convenience when balanced against price?

Perhaps the major task facing the consumer financial services industry in

CONSUMER FINANCIAL SERVICES
AN AMERICAN BANKER WEEKLY FEATURE

1988 is determining the basic needs of consumers — without ignoring fads and fashions — then using this information to formulate marketing strategies.

Because these questions are being asked now doesn't mean that the industry wasn't trying to understand consumer needs in the months before the stock market crash. Chase Manhattan Corp. created a certificate of deposit for consumers who wished to dabble in

Consumers: Page 6

270 Bank of America Branches Offer Life Insurance, Mutual Funds, Annuities

By LYNN BRENNER

NEW YORK — Bank of America said it is now making life insurance, mutual funds, and annuities available at 270 branches through an arrangement with GNA Corp., a Seattle-based marketing agency.

GNA Corp. will pay the bank a concession fee for access to its customers, a Bank of America spokesman said. The fee is not based on volume of sales.

The program, called Investment Network of America, is Bank of America's second publicized attempt in four years to offer its customers insurance products. In June 1986, the bank quietly ended an unsuccessful 18-month program in which Capitol Holding Co. sold life, automobile, home owners', and renters' insurance at 23 branches. Capitol Holding is a Kentucky-based insurer that specializes in direct response sales and telemarketing.

A more recent, much smaller, and unpublicized venture involved Equitable Life Assurance Society of the United States. Equitable offered life insurance to a small, affluent group of Bank of America customers, a bank spokesman said, but that program was not successful either.

The new program is much more ambitious than its predecessors, and it offers a different product line — property/casualty coverage is omitted, and mutual funds are added. Also, GNA Corp., a subsidiary of Weyerhaeuser Co., Tacoma, Wash., specializes in selling insurance and securities to bank customers through a sales force of ac-

Bank of America: Page 15

400 at Citicorp Facing Layoffs; More Expected

Bank Confirms It Will Cut Investment Banking Staff

By JED HOROWITZ

NEW YORK — Citicorp officials confirmed Wednesday that 400 employees — 16% of its investment banking staff in North America — are being fired. They would not comment on reports that Citicorp ultimately will lay off more than 10,000 employees this year.

The long-expected layoffs were announced to investment bank employees in an internal memo Wednesday morning, followed immediately by dismissals for some individuals, sources said. The bulk of the cuts are in municipal finance and mortgage-backed securities — areas that several Wall Street firms recently eliminated, in part because of price-cutting incursions from commercial banks.

Alan MacDonald, group executive in the North American investment bank, also wrote in the memo that "adjustments of lower magnitudes" would hit corporate finance, liquid markets, funding, and operations at the nation's largest banking organization. Liquid markets includes Citibank's foreign exchange and government finance desks.

A Citibank source said about two-thirds of the layoffs will affect employees in operations and systems who support sales and trading.

Sources predicted that the retrenchment will spread overseas in the next few weeks. Citicorp employs about 11,000 people in its investment bank worldwide — including 2,500 in North America.

"There's been a sense of impending doom for the past six months at the investment bank," said a retail banking official who asked for anonymity.

Citicorp: Page 15

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MARKETING MANAGEMENT

On Planning Horizon, Customers Are Often Unseen

ALTHOUGH WE TALK ABOUT planning, in the context of the long range, the planning horizon rarely extends beyond the current fiscal year. One by-product of the short attention span of managers of financial service organizations is brisk changes of emphasis. Derivative, in turn, is the constantly changing jargon we use to describe how we plan to live our lives from planning horizon to planning horizon.

I guess it was three or four years ago when the concept of being customer driven burst upon us, and every article or presentation on the subject of "this year's plan" promised that our organization would be customer driven as never before.

The next year, we were going to positively impact return on assets. Wisdom teeth, not ROAs, are most often impacted. Split infinitives aside, the verb means "to pack firmly together." I'm not sure why we wanted to do that to our ROA, but we all said we did, nevertheless.

Next came two concepts to hit us at once — we were going to build sustainable competitive advantage and always insure that we added value.

Deutsch Says:

Banking services are purchased infrequently, and what is purchased is not designed to be consumed or replaced — what is purchased is a continuous stream of service.

The skeptics among us might argue that planning processes nurture words more than ideas, but that is unfair. Through the admittedly arguable technique of flocking after this year's hot button, we do get an opportunity to examine a spectrum of concepts. The planning skill is to sort among them, to analyze each critically, and to rally around the ideas and resulting programs which best fit one's own market situation.

In that spirit I offer one or two questions that probably should be examined, if for no other reason than for the sake of completeness.

First: Are we so concerned with product management that we are neglecting market management?

The suggestion here is that a bank is more like a store than a manufacturing company. Banking services are not designed to be consumed or replaced.

The conventional wisdom has it that products have to be managed, and all the reasons why that is so can be found after any half-hour Nexis search. The question is one of balance — because just as products have to be managed, so do markets, and market management is not product management.

With the development of product management has come a marked shift in focus — and I am afraid it has not been altogether salutary. We spend too much time worrying about whether to permit 16-month or 30-month payment periods for personal credit lines; worrying about how to design drop-lock, flip-flop, variable-rate savings certificates; worrying about whether to offer 23 or 33 styles of checks; and not worrying about the only thing that really matters — the customer and what the customer's needs are, and how to best serve those needs.

Second question: Have we become so accustomed to hearing about the consumer goods marketing model that we have stopped considering whether it fits us?

Here, for your consideration, is another marketing model, which may fit the financial service marketing challenge more closely. The marketing challenge that the banker faces is more like that of a store owner than a product manufacturer. Frankly, I am not sure that the fit is perfect in either case, but see if you don't agree that the relative "more closely" is accurate.

Companies that make products worry about the name of the product and how to advertise it; about the location of the product on the shelf and the product's package; about the price and the color of the label. They think about product enhancements, product life-cycle theory, and product extension strategies. Collectively, they spend hundreds of millions of dollars on advertising. Their fundamental purpose is to get the shopper to buy the product.

Their underlying assumption is that the shopper will get to the store; and, in fact, they don't much care which store is gotten to. That is because, except in some specialized industries, there are no stores dedicated to brands and in most consumer goods categories there are few dedicated to products. When is the last time you went to a cereal store? Or the local Heinz outlet?

The product-purchase decision and the store-selection decision are made independently. And repurchase decisions are made only after use and consumption.

It is the store owner who has to deal with the problem that no sales take place until customers arrive at the selling place. When store owners talk about being market driven, they know that being market driven means being driven to design their stores with the customer in mind. They insure that the store is well lit and easy to navigate; that the products are displayed attractively, are easy to choose among, and are fresh and clean; and that courtesy is always present.

The suggestion here is that a bank is more like a store than a manufacturing company. Banking services are purchased infrequently, and what is purchased is not designed to be consumed or replaced — what is purchased is a continuous stream of service. The concept of a stream of service suggests frequent contact between the service provider and the user. There are deposits to be made, balances to be inquired about, credit facilities to be taken down, wire transfers to be sent. Whether in person, by phone, or by personal computer, no matter how configured, the customer has to go to the banking store again and again.

We are protected from our product managers by our positions. We get the banking services provided by our personnel departments, frequently at a discount, and we can ignore the complexity because we are often awash in the background material. We understand financial services.

We are protected from our stores by our positions. We don't have to stand in slow-moving lines, use drive-in windows, negotiate our parking lots, or stare down tellers who don't know us. Those of us who don't send our secretaries downstairs use the "main office," thus enjoying the only office that is apt to be overstaffed. We get the same banking service provided to the chairman of the board.

Have we become so accustomed to hearing about the consumer goods marketing model that we have stopped considering whether it fits us?

You can't help wondering what the planning buzzword of the year would be if more of us walked in the customers' moccasins. ■

The *American Banker* today welcomes back Barry I. Deutsch as one of its regular columnists for our weekly Marketing Management column. Mr. Deutsch is executive vice president of BankAtlantic, Fort Lauderdale, Fla., a $2 billion federal savings bank. He oversees his institution's marketing, financial services planning, and communications departments. Before joining BankAtlantic last October, Mr. Deutsch was senior vice president and head of marketing for Mellon Bank, Pittsburgh.

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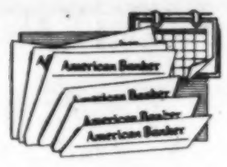
FLASHBACKS

What made news in the *American Banker* this week...



40 Years Ago

• In his State of the Union address, President Truman called for a $40 tax cut for each individual. The cut would come at the expense of corporations, he said, because they could "well afford to carry a larger share of the tax load." Mr. Truman told Congress that low-income families were faced with a high cost of living, while "at the same time, profits of corporations reached an all-time record in 1947" of $17 billion, compared with $12.5 billion in 1946.

• The Treasury Department announced that the Miss Liberty half dollar would be replaced by a coin bearing the likeness of Benjamin Franklin.

• Texas led the nation in new banks in 1947, according to figures compiled by the American Banker. Twenty-six banks opened in the state, compared to 12 in 1946. Nationwide, 114 banks opened in 1947, down from 138 the year before.

20 Years Ago

• Bankers warily endorsed President Johnson's program to end the U.S. payments deficit in 1968. The program included a reduction in the ceilings for foreign bank loans permitted under voluntary programs, and gave the Federal Reserve Board standby authority to change the voluntary program to one of mandatory guidelines. Some bankers said they were puzzled by an aspect of the program that called for banks to "contribute" $500 million toward payments equilibrium by slicing that amount from short- and long-term credit extended to foreigners. "As a practical matter you just can't refuse to renew all these credits," said the chairman of one large international bank.

10 Years Ago

• G. William Miller, President Carter's newly designated Federal Reserve Board chairman, said two of his chief goals would be to curb inflation and to increase the attractiveness of membership in the the Federal Reserve system.

• The Federal Reserve Board revealed it would broaden its definition of unsafe and unsound banking practices to include "questionable or improper" domestic political contributions by banks. An attorney for the Federal Reserve Board said the agency would define questionable and improper payments on a case-by-case basis.

5 Years Ago

• Thirty-seven banks were scheduled to open in Texas in January — an unprecedented monthly total. Most of the new banks were nationally chartered, independent institutions located in the affluent, high-growth suburbs of Houston, the Dallas-Fort Worth area, and Austin. "Everyone who has two nickels to rub together is opening a bank or trying to," said John J. Rau, president of the newly opened Petrobank, located in Houston's fast-growing "energy corridor."

• About 20 Arkansas community bankers formed an independent bankers association, charging that the Arkansas Bankers Association did not offer programs that fit their needs.

1 Year Ago

• Figures released as part of President Reagan's proposed federal budget showed that bank and thrift failures would deplete federal insurance funds faster than expected. "Outlays by the major deposit insurance funds are estimated to exceed previously planned levels by $5.8 billion in 1987 and $4 billion in 1988," said James Miller, director of the White House Office of Management and Budget.

• U.S. regulators joined Britain's central bank in proposing capital guidelines that would require big banks in both countries to carry higher levels of capital to cushion against riskier activities.

• Calling banks "just plain greedy," a coalition of consumer groups kicked off a six city campaign in New York aimed at lowering interest rates on bank credit cards.

— **Domenica Trevor**

DAILY FINANCIALS
Wednesday January 6, 1988

Money Market

Federal funds range 6⅞%-7%
Prime rate (11/6/87) 8.75%
Discount rate FRB of New York (9/4/87) 6.00%

Call loans on securities, to brokers on stock exchange collateral 8.50%

Bankers acceptances offering rate, discount (1/6)
30 days: 6.73 60 days: 6.80 90 days: 6.84
120 days: 6.90 180 days: 6.87

Certificates of deposit, highest offering rate, at New York City banks (1/6)
14 days: 6.30 30 days: 6.50 60 days: 6.60
90 days: 6.70 120 days: 6.80 150 days: 6.85
180 days: 6.85 270 days: 7.10 360 days: 7.30

Commercial paper, dealer Aaa, discount (1/6)
30 days: 6.75 60 days: 6.85 90 days: 6.90

Commercial paper, directly placed, discount (1/6)
5-14 days: 6.65-6.70 15-29 days: 6.70-6.80
30-59 days: 6.70-6.80 60-89 days: 6.625-6.70
90-179 days: 6.50-6.625 180-270 days: 6.50-6.625

Treasury-bill rates, secondary market, bid (1/6)
90 days: 5.86 180 days: 6.36 1 year: 6.64

Eurodollar deposits, London bid (1/6)
Overnight: 6 13/16 7 days: 6⅜ 1 month: 7.00
3 mos.: 7¼ 6 mos.: 7⅜ 1 year: 7¾
NIBOR: 6 15/16 **LIBOR:** 7½

The Bond Buyer Municipal Bond Index

	1/6/88	1/5/88	12/30/87
Index	88.07	88.16	87.07
Yield to Par Call	8.52	8.48	8.70
Yield to Maturity	8.31	8.28	8.45

The Bond Buyer Municipal Bond Index was designed by the Chicago Board of Trade as the basis for long-term municipal bond futures contracts. It is an average obtained when the price of 40 select term bonds is divided by the amount at which each bond would be priced to yield 8%. The Index is computed daily and quoted in points and 32nds.

Futures Markets

3-Month Treasury-Bill Futures (IMM)*

Delivery	High	Low	Settle	Chg(a)	Yld(b)
Mar. '88	93.91	93.82	93.89	unch	6.11
June '88	93.64	93.56	93.62	+ 1	6.38
Sept.'88	93.32	93.26	93.31	+ 2	6.69
Dec. '88	92.98	92.92	92.99	+ 4	7.01
Mar. '89	92.72	.....	92.73	+ 5	6.27
Jun. '89	.....	.....	92.50	+ 6	6.50

As of the previous day's close; Total no. of contracts traded: 5,944 total open interest: 17,801 and change in open interest: – 795

Footnotes to Futures Tables:
*For 3-month Treasury bills with a face value at maturity of $1 million. a–Change from previous day's settlement price in basis points. b–100.00 minus settlement price. IMM–Traded on the International Monetary Market, a division of the Chicago Mercantile Exchange. r–New record high in open interest.

American Banker Index

Selected Money Center Bank Stocks*

			High	Low	Last
Jan. 6:	247.6	1988:	248.8	241.6	247.6
Jan. 5:	248.8	1987:	401.7	212.0	234.6
Jan. 4:	241.6	1986:	388.7	331.2	331.3
Dec. 31:	234.6	1985:	344.2	242.7	344.2
Dec. 30:	235.1	1984:	269.6	178.4	246.3

* Based on midday prices.

Cincinnati Firm Signs For NCR Workstations

CINCINNATI — First National Cincinnati Corp. has contracted with NCR Corp. to buy teller and customer service equipment that could involve as many as 650 workstations.

The NCR Financial Tower System 2 Branch Automation System will be installed at 35 branches of the $2.5 billion-deposit First National Bank of Cincinnati, flagship of the 13-bank holding company.

Phillip A. Parker, senior vice president of the corporation, said other affiliated banks and possibly some correspondent banks will be included over the next two years.

The Tower System 2 has been tested for six months at First National Bank. NCR, which is based in nearby Dayton, said First National's installation of the 5267 and 5067 workstations will be one of the first in the United States since they were introduced in early December. ■

OPERATIONS/TECHNOLOGY
every Wednesday in
American Banker

Merrill Unit Led in '87 Long-Term Munis

Senior Manager For 277 Issues

By MATTHEW KREPS
The Bond Buyer

NEW YORK — Merrill Lynch Capital Markets was the leading senior manager for long-term municipal bonds in 1987, according to preliminary figures from MuniSearch, *The Bond Buyer's* electronic data base.

Hawkins, Delafield & Wood was the year's top bond counsel and the New York State Medical Care Facilities Finance Agency was the largest issuer, according to MuniSearch.

Merrill Lynch was lead manager for 277 issues totaling $8.66 billion in 1987, for an 8.5% share of a total long-term volume of $101.7 billion. These figures include both tax-exempt and taxable bonds.

Merrill Lynch was the dominant senior manager in 1983, 1984, and 1985, but was nosed out of first place in 1986 by Salomon Brothers Inc. Salomon was the leading underwriter for most of last year, but the company dropped out of the municipal bond industry in October and finished the year in third place.

Goldman, Sachs & Co. was a close second in 1987, with 139 issues totaling $8.2 billion. It was followed by Salomon Brothers, $7.76 billion; Smith Barney, Harris Upham & Co., $7.23 billion; and First Boston Corp., $6.56 billion.

In 1986, the top five senior managers were Salomon Brothers, with $14.93 billion; Merrill Lynch, $14.87 billion; Goldman Sachs, $11.84 billion; Shearson Lehman Brothers Inc., $8.92 billion; and Smith Barney, $8.08 billion.

Twenty-four investment banking firms and commercial banks were lead managers for more than $1 billion of new issues last year, down from 27 in 1986 and 37 in 1985.

Hawkins Delafield was the leading bond counsel in 1987, with 151 long-term issues totaling $5.8 billion. The firm was second in 1986 and fourth in 1985.

Mudge Rose Guthrie Alexander & Ferdon, which had been No. 1 in 1985 and 1986, was second last year, with $5.59 billion. It was followed by Orrick, Herrington & Sutcliffe, $4.9 billion; Brown & Wood, $4.56 billion; and Chapman and Cutler, Chicago; $4.54 billion.

In 1986, the leading bond counsel were Mudge Rose, with $13.13 billion; Hawkins Delafield, $8.81 billion; Orrick Herrington, $7.24 billion; Chapman and Cutler, $5.34 billion; and Kutak, Rock & Campbell, Omaha, $4.34 billion.

Twenty law firms were bond counsel for $1 billion or more of new issues in 1987, down from 29 in 1986 and 44 in 1985.

The top underwriter and bond counsel withstood strong yearend showings by the second-place firms. Goldman Sachs led the underwriters last month with $808 million of new issues — more than twice Merrill Lynch's $401 million. Mudge Rose was the top bond counsel for the month with $769 million, well ahead of second-place Orrick Herrington's $483 million.

The New York State Medical Care Facilities Finance Agency was the nation's busiest issuer of long-term bonds in 1987, with 11 issues totaling $1.82 billion. That put it ahead of Puerto Rico, which sold $1.62 billion; the Louisiana Public Facilities Authority, $1.53 billion; the Municipal Assistance Corporation for the City of New York, $1.45 billion; and the state of Louisiana, $1.29 billion.

Four other issuers sold more than $1 billion of new bonds in 1987: the Intermountain Power Agency in Utah, $1.25 billion; New York City, $1.21 billion; the Grand River Dam Authority in Oklahoma, $1.15 billion; and the North Carolina Eastern Municipal Power Agency, $1.01 billion.

Salomon Brothers was the leading senior manager in the much smaller short-term municipal market last year, with seven issues totaling $2.85 billion, for a 17.8% share of the $16.02 billion volume. Salomon was ranked fifth in 1986.

Merrill Lynch, which was the top senior manager of short-term municipals in 1986, was second last year with $1.99 billion. It was followed by Shearson Lehman Brothers Inc., $1.75 billion; BankAmerica Capital Markets Group, $1.01 billion; and Goldman Sachs, $978 million.

Orrick Herrington was the leading bond counsel for short-term municipals last year, with 12 issues totaling $2.51 billion. ■

Leading Municipal Underwriters

Senior managers of long-term issues in 1987 (millions of dollars)

	Amount	Issues
1 Merrill Lynch Capital Markets	8,664.7	277
2 Goldman, Sachs & Co.	8,202.3	139
3 Salomon Brothers Inc.	7,760.1	87
3 Smith Barney, Harris Upham & Co.	7,226.0	178
5 First Boston Corp.	6,563.5	92
6 PaineWebber Inc.[1]	4,919.2	128
7 Shearson Lehman Brothers Inc.[2]	3,893.7	263
8 Prudential-Bache Capital Funding	3,437.3	245
9 E.F. Hutton & Co.	2,523.8	64
10 Donaldson, Lufkin & Jenrette Securities Corp.	2,254.4	37
11 Drexel Burnham Lambert Inc.[3]	2,075.5	122
12 Bear, Stearns & Co.	2,006.8	67
13 Citicorp Investment Bank	1,849.4	33
14 Morgan Stanley & Co.	1,729.8	32
15 Kidder, Peabody & Co.	1,641.4	63
16 J.P. Morgan Securities Inc.	1,564.4	34
17 Chase Manhattan Capital Markets Corp.	1,439.9	31
18 Lazard Freres & Co.	1,416.2	5
19 L.F. Rothschild & Co.	1,295.1	31
20 Boettcher & Co.	1,208.0	78
21 Bankers Trust Co.	1,204.6	46
22 Miller & Schroeder Financial Inc.	1,162.0	96
23 Dillon, Read & Co.	1,132.7	21
24 Rauscher Pierce Refsnes Inc.	1,117.2	86
25 John Nuveen & Co.	988.8	69

Senior managers of short-term issues in 1987 (millions of dollars)

	Amount	Issues
1 Salomon Brothers Inc.	2,853.7	7
2 Merrill Lynch Capital Markets	1,987.7	16
3 Shearson Lehman Brothers Inc.[1]	1,750.7	76
4 BankAmerica Capital Markets Group	1,009.8	22
5 Goldman, Sachs & Co.	978.4	11
6 First Boston Corp.	963.7	10
7 Ehrlich-Bober & Co.	672.8	106
8 Citicorp Investment Bank	639.0	10
9 J.P. Morgan Securities Inc.	525.0	7
10 Chemical Bank	494.1	25
11 Bankers Trust Co.	433.6	9
12 Morgan Stanley & Co.	348.5	23
13 Prudential-Bache Capital Funding	337.5	22
14 Alex. Brown & Sons Inc.	300.0	1
15 Security Pacific Merchant Bank	202.3	14
16 Donaldson, Lufkin & Jenrette Securities Corp.	194.6	3
17 Seasongood & Mayer	171.6	96
18 Kidder, Peabody & Co.	171.0	5
19 Piper, Jaffray & Hopwood Inc.	169.4	8
20 Chase Manhattan Capital Markets Corp.	166.1	21

Each senior manager is credited with the full amount of the par value of each offering in which it acted as senior manager. Long-term issues are tax-exempt and taxable bonds maturing in 13 months or more. Short-term issues are tax-exempt and taxable bonds maturing in 12 months or less. [1]PaineWebber totals include issues managed by Rotan Mosle Inc. [2]Shearson Lehman totals include issues managed by Chiles Heider, Foster & Marshall Inc., and Robinson-Humphrey Co. [3]Drexel Burnham totals include issues managed by Kirchner, Moore & Co.

Source: MuniSEARCH

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